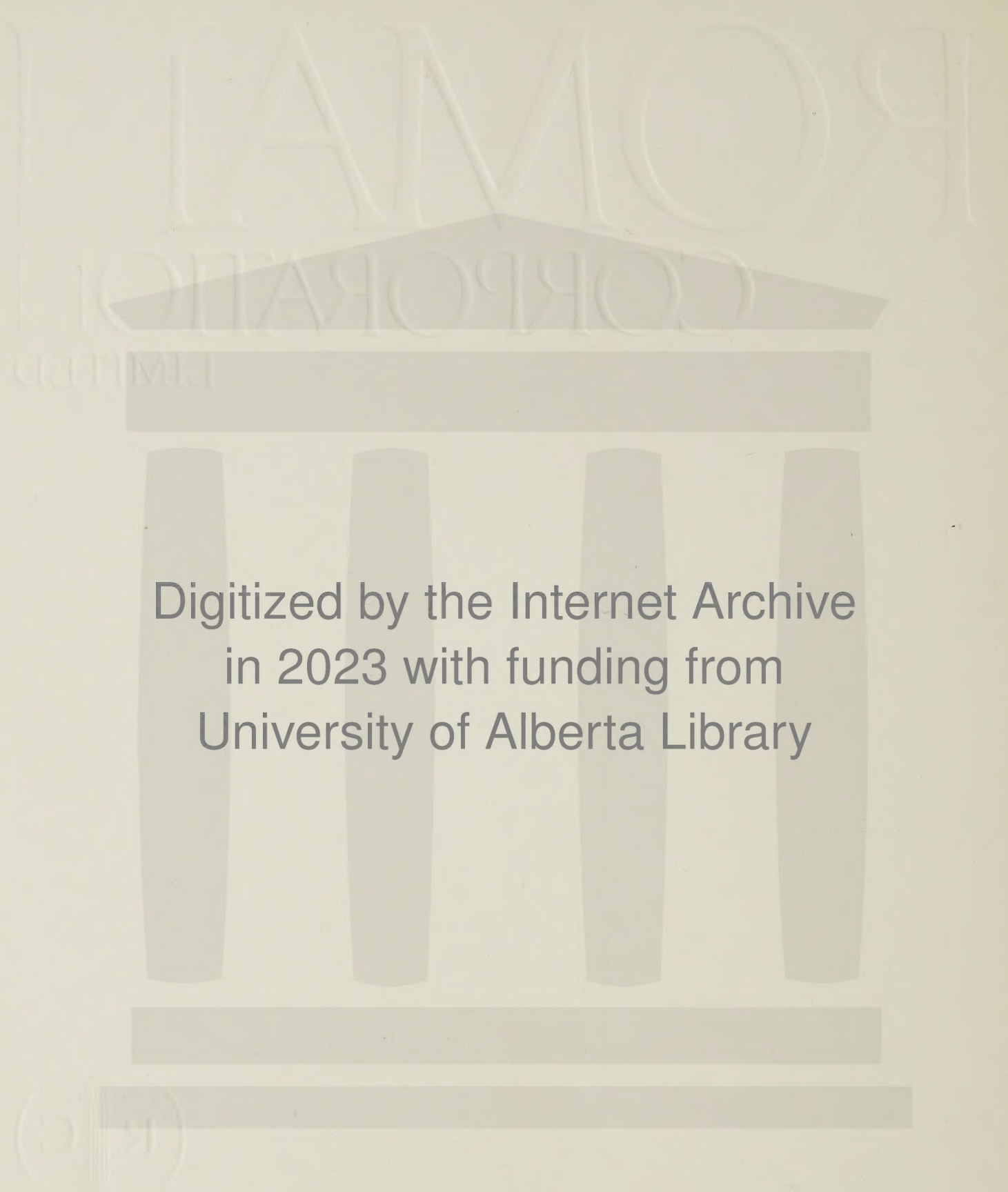


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ROMAN CORPORATION LIMITED



Annual Report 1977



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ROMAN CORPORATION LIMITED

ANNUAL REPORT TO SHAREHOLDERS

OFFICERS

Stephen B. Roman, LL.D.
Chairman of the Board

Vincent L. Chapin
President

John S. Grant, Q.C.
Vice-President

John C. Puhky
Secretary

Frederick G. Roman
Treasurer



DIRECTORS

Vincent L. Chapin

Joseph A. Patrick

John H. Coleman

W. Earl Riddolls

John S. Grant

Helen Roman-Barber

George B. Heenan

Stephen B. Roman

John Kostuik

Russell A. Rule

Charles D. Parmelee

HEAD OFFICE

Suite 3900, South Tower,
Royal Bank Plaza
P.O. Box 40
Toronto, Ontario
M5J 2K2

AUDITORS

Coopers & Lybrand
Toronto, Ontario

BANKERS

The Royal Bank of Canada
Toronto, Ontario

REGISTRAR & TRANSFER AGENT

Guaranty Trust Company of Canada
Toronto, Ontario

DIVISION OFFICE AND MILL

Strathcona Paper Company
Box 130
Napanee, Ontario

President

— W. Earl Riddolls

Vice-Presidents:

— Operations

— Lloyd G. Finlay

— Engineering

— Warren W. Finlay

— Sales & Administration

— William J. Finlay

— Production

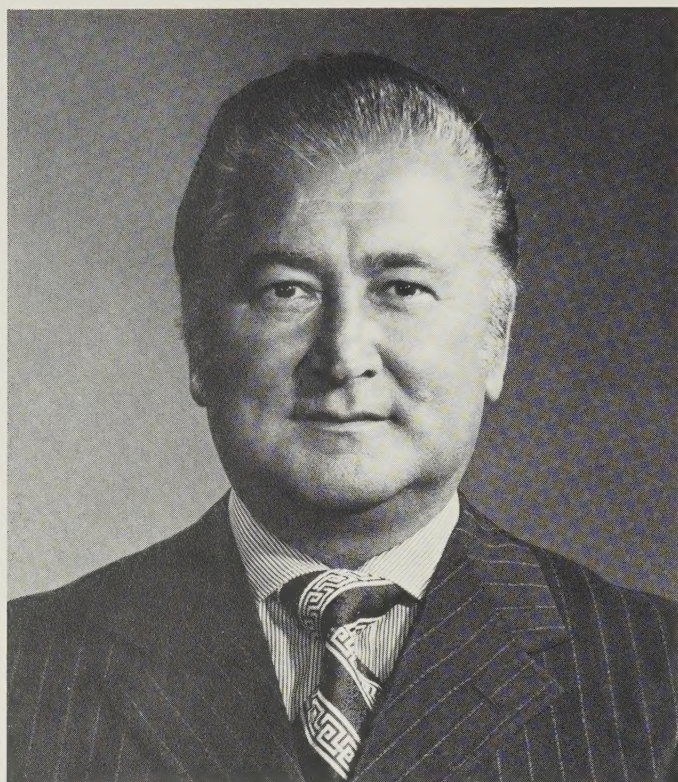
— Hugh C. Finlay

Comptroller

— Jim Loudon



REPORT TO SHAREHOLDERS:



Stephen B. Roman

The strength of Roman Corporation and its long term prospects improved substantially in 1977. This related mainly to two factors. First and most important was the favourable impact on your Company of some remarkable achievements by Denison Mines Limited in the past year. Roman Corporation as the principal shareholder of Denison Mines was the major beneficiary of what Denison has described as its greatest year ever, in terms of earnings and the laying of new foundations for future growth. Second, was the decision of your Company to establish progressively over the next 5 years an oil and gas base in association with Seagull Petroleum Limited.

Denison

On February 28, 1978, the Ontario Government ratified Denison's long term contract with Ontario Hydro (signed in December, 1977) for the supply of 126 million pounds of U_3O_8 over the period 1980 to 2011. In December, 1977, the Government of Greece approved plans for the development of the Prinos oilfield in the Aegean Sea. Denison Mines is the majority shareholder (68%) of Prinos, which is a

proven field of substantial proportions and work is now in progress with Denison's partners in the commercial exploitation of the project. These favourable developments for Denison taken together with its remarkable coal potential in British Columbia, give the promise of unprecedented growth for that energy resource based company over the coming decade; a promise which as fulfilled will benefit your Company proportionately.

Seagull

The other major development in 1977 was initial action by your Company to participate in an oil and gas operation. To this end, an arrangement was made in July 1977 to acquire at our option, a controlling interest in Seagull Petroleum Limited. Seagull is a Bahama-based holding company and subject to what your management deems to be satisfactory developments on a year to year basis, control may be acquired over a 5-year period under a progressive convertible debenture investment program totalling \$5,000,000. Seagull holds participating interests in a series of oil and gas concessions throughout the world, and currently functions mainly as a land acquisition company in the oil and gas sector. The intent, over the investment period, is to transform Seagull from its current type of activities into a major oil and gas company by an infusion of substantial funding for drilling and development purposes.

FINANCIAL

Net earnings for the year were \$6,705,466 or \$2.57 per share compared to \$4,102,924 or \$1.57 per share in 1976. The increase resulted mainly from our equity holding of Denison Mines whose net earnings in 1977 at \$27,878,009 were 85% above the level of \$15,043,214 recorded in 1976. Denison's improvements arose mainly from increased shipments of uranium together with increased revenue from oil and gas operations and some increase in the earnings of Lake Ontario Cement Limited.

INVESTMENTS

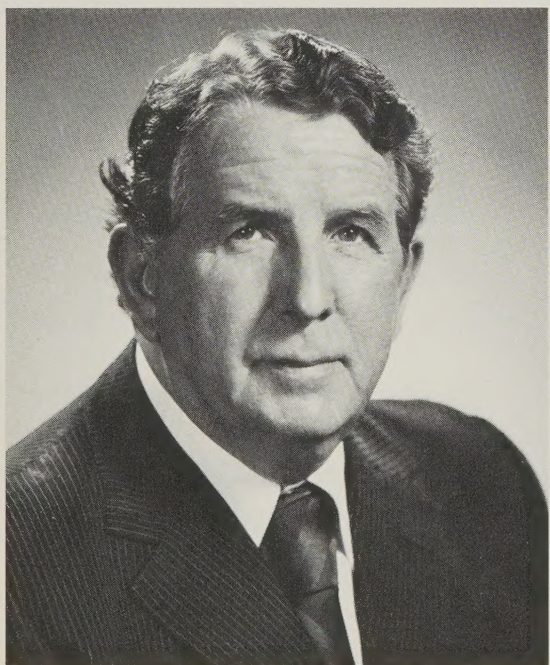
Consistent with management's view of the strong growth potential of the energy resource sector, new investment in 1977 was concentrated in that area. A total of \$2,710,869 was invested in the purchase of

an additional 50,000 shares of Denison Mines Limited. At year's end we held 1,362,899 shares of Denison Mines or 29.8% of their total issue. A sum of U.S. \$1,000,000 was invested in a convertible debenture of Seagull Petroleum Limited as the initial step in our intention to establish a control position in an oil and gas operation. In addition, your Company undertook in conjunction with Denison Mines and one of its associates, a private placement obligation in the amount of \$250,000 to be used in the exploration of a molybdenum property held by Vantreal Resources Limited (now Caspian Resources).

OPERATIONS

Strathcona Paper Company:

Earnings of this division were down sharply from 1976. Costs of energy, raw materials and labor continued their upward rise during the year. Despite these difficulties which were compounded by generally low demand for its product (boxboard) and unused capacity throughout the industry, the division managed to hold its percentage share of the market. This achievement at a time of greatly increased competition and an adverse economic climate reflects Strathcona's improved operational efficiency resulting from the capital expenditure program undertaken over the past 2 years at a cost of \$1,750,000. Consumer demand for our product



Vincent L. Chapin

is not expected to improve in 1978. We are nonetheless confident that Strathcona will maintain its share of the market in the coming year, and improve its earning position when prices rise in response to better economic conditions.

OUTLOOK

Growth and diversification based on quality investment continue as major objectives of your Company. The favourable impact on Roman Corporation of a substantially strengthened Denison — our major holding — will enable management to pursue these objectives vigorously in the months ahead. To this end, your Company has under consideration a number of important investment opportunities concerning which announcements will be made in the event of positive developments.

We are pleased to take this opportunity to express our sincere appreciation to all our employees for their dedication over the past year and to thank all our customers and shareholders for their continuing support.

On Behalf of the Board of Directors,

A large, stylized handwritten signature in black ink, consisting of a large loop at the top and a long, sweeping horizontal stroke at the bottom.

STEPHEN B. ROMAN
Chairman of the Board

A handwritten signature in black ink, appearing to read 'V. Chapin' with a stylized flourish at the end.

VINCENT L. CHAPIN
President

Toronto, Ontario
May 12, 1978



ASSETS

	1977 \$	1976 \$
CURRENT ASSETS		
Marketable securities	75,462	149,283
Accounts receivable	685,451	811,740
Inventories	703,284	513,088
Prepaid expenses	19,700	31,584
	<u>1,483,897</u>	<u>1,505,695</u>
LONG-TERM INVESTMENTS (note 2)	<u>46,141,643</u>	<u>38,284,795</u>
FIXED ASSETS		
Land — at cost	201,984	96,784
Plant, buildings and equipment — at cost, less accumulated depreciation of \$1,441,826 (1976 — \$1,085,284)	<u>5,495,772</u>	<u>5,104,723</u>
	<u>5,697,756</u>	<u>5,201,507</u>
OTHER ASSETS	<u>237,778</u>	<u>228,191</u>
	<u>53,561,074</u>	<u>45,220,188</u>



LIABILITIES

	1977 \$	1976 \$
CURRENT LIABILITIES		
Bank overdraft	44,116	108,767
Bank demand loans (note 3)	14,583,800	12,807,500
Accounts payable and accrued liabilities	851,747	927,976
	<u>15,479,663</u>	<u>13,844,243</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized — 5,000,000 shares without par value		
Issued and fully paid — 2,613,000 shares	3,806,777	3,806,777
CONTRIBUTED SURPLUS	280,598	280,598
RETAINED EARNINGS	33,994,036	27,288,570
	<u>38,081,411</u>	<u>31,375,945</u>
	<u>53,561,074</u>	<u>45,220,188</u>

SIGNED ON BEHALF OF THE BOARD

JOHN H. COLEMAN, Director

VINCENT L. CHAPIN, Director



ROMAN CORPORATION
LIMITED

CONSOLIDATED STATEMENT OF EARNINGS
AND RETAINED EARNINGS

For the Year Ended December 31, 1977

	1977 \$	1976 \$
REVENUE		
Sales.....	11,873,625	12,302,959
Share of income determined by the equity method	7,080,156	3,670,102
Other interest and dividends	37,024	37,287
Loss from security transactions	(47,702)	(46,994)
Services and rental income	117,250	225,759
	<u>19,060,353</u>	<u>16,189,113</u>
EXPENSES		
Cost of operations exclusive of the following items	9,345,355	9,060,781
Selling, general and administrative expenses	1,458,230	1,433,344
Interest.....	1,175,971	1,269,240
Depreciation.....	375,331	322,824
	<u>12,354,887</u>	<u>12,086,189</u>
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	6,705,466	4,102,924
PROVISION FOR INCOME TAXES	—	237,000
EARNINGS BEFORE EXTRAORDINARY ITEM	6,705,466	3,865,924
EXTRAORDINARY ITEM		
Recovery of income taxes resulting from the loss carry-forward of prior years	—	237,000
NET EARNINGS FOR THE YEAR	6,705,466	4,102,924
RETAINED EARNINGS — BEGINNING OF YEAR	27,288,570	23,185,646
RETAINED EARNINGS — END OF YEAR	<u>33,994,036</u>	<u>27,288,570</u>
EARNINGS PER SHARE FOR THE YEAR BEFORE EXTRAORDINARY ITEM	<u>\$2.57</u>	<u>\$1.48</u>
EARNINGS PER SHARE FOR THE YEAR	<u>\$2.57</u>	<u>\$1.57</u>



CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1977

SOURCES OF WORKING CAPITAL	1977 \$	1976 \$
Current operations —		
Earnings before extraordinary item	6,705,466	3,865,924
Items not affecting working capital in the year —		
Depreciation	375,331	322,824
Share of income determined by the equity method, less dividends received	(4,151,638)	(1,106,429)
Provision for decline in value of investments	—	100,000
Total from current operations	2,929,159	3,182,319
Recovery of income taxes resulting from the loss carry-forward of prior years	—	237,000
	<u>2,929,159</u>	<u>3,419,319</u>
 USES OF WORKING CAPITAL		
Purchase of long-term investments	3,705,210	5,359,697
Additions to fixed assets	871,580	944,508
Other assets	9,587	60,653
	<u>4,586,377</u>	<u>6,364,858</u>
DECREASE IN WORKING CAPITAL	1,657,218	2,945,539
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	12,338,548	9,393,009
WORKING CAPITAL DEFICIENCY — END OF YEAR	<u>13,995,766</u>	<u>12,338,548</u>



ROMAN CORPORATION
LIMITED

AUDITORS' REPORT

To the Shareholders

We have examined the consolidated balance sheet of Roman Corporation Limited as at December 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND

Chartered Accountants

Toronto, Ontario

February 13, 1978



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 1977

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the accounts of the company and a wholly-owned subsidiary, Roman International Limited. The results of the subsidiary's operations are included from the date of incorporation, June 30, 1977.

(b) Translation of foreign currencies

Foreign currencies have been translated into Canadian dollars as follows: Current assets and current liabilities at rates in effect at the end of the year; non-current assets and liabilities and revenue and expenditure items at approximate rates in effect at dates of transactions.

(c) Marketable securities

Marketable securities are carried at their quoted market value which is lower than cost.

(d) Inventories

Finished goods are valued at the lower of cost and net realizable value less normal profit margin. Raw materials and supplies are valued at the lower of cost and replacement cost.

(e) Long-term investments

(i) The investment in shares of Denison Mines Limited and two other companies, one of which is a mining company, is accounted for by the equity method, by which the original cost of the shares is adjusted for the company's share of earnings or losses less dividends since effective control was acquired. Portfolio investments are carried at cost. All long-term investments are written down to their estimated inherent worth when there is evidence of a permanent decline below their carrying value.

(ii) Exploration expenditures made in the year are written off to expenses.

(iii) The excess cost of the company's investment over its share in the underlying equity of the three companies referred to above at the dates of acquisition is considered to be applicable to the mining properties of these companies and is being amortized over twenty-five years, primarily on the basis of production. The unamortized excess at December 31, 1977 amounted to \$10,897,983. The amortization charge for the year was \$633,504 (1976 — \$571,294) and has been deducted in calculating the share of income determined by the equity method.

(f) Fixed assets

Fixed assets are carried at cost.

Depreciation charges are calculated using the straight-line method over the estimated useful lives of the assets at the following annual rates:

Buildings and structures	4%
Plant and equipment	7%-10%
Vehicles	33⅓%



2. LONG-TERM INVESTMENTS

This item comprises:

	1977 \$	1976 \$
(a) Shares in companies accounted for by the equity method — market value \$73,655,986 (1976 — \$81,527,624)	44,734,814	38,036,294
Shares and debentures in other companies, at or below cost	<u>1,406,829</u>	<u>248,501</u>
	<u>46,141,643</u>	<u>38,284,795</u>

(b) Shares and debentures in other companies include shares carried at \$346,229 with a quoted market value of \$709,260 (1976 — \$248,501 and \$303,902, respectively).

(c) The quoted market values referred to above do not necessarily represent the realizable value of these holdings which may be more or less than that indicated by market quotations.

(d) Shares and debentures in other companies include a convertible debenture of \$1,060,600 (U.S. \$1,000,000), issued by Seagull Petroleum Limited pursuant to an agreement described in note 4(a).

3. BANK DEMAND LOANS

The bank demand loans are secured by substantially all the securities owned by the company.

4. COMMITMENTS

(a) Under an agreement dated June 17, 1977 the company purchased for U.S. \$1,000,000 (see note 2(d)) a convertible debenture in Seagull Petroleum Limited ("Seagull"). Under the agreement the company has the option to invest up to an additional U.S. \$4,000,000, which it may exercise by investing either U.S. \$1,000,000 on or before July 15 in each of the years 1978 to 1981 or the balance of the U.S. \$4,000,000 at any time prior to July 16, 1981. In the event the company does not invest the full U.S. \$1,000,000 in any year, the option will terminate. The option may be exercised by the purchase of additional debentures, by the purchase of shares of Seagull at U.S. \$4.55 per share or by the acquisition of a direct property interest in Seagull's properties.



The convertible debentures will mature on July 15, 1987 and are convertible into shares of Seagull at U.S. \$4.55 per share or into a direct interest in Seagull's properties. The convertible debentures do not bear interest until July 8, 1982 and may be redeemed at any time after that date.

- (b) In December 1977 the company, acting on behalf of itself and two other equal joint venturers, entered into an agreement with Vantreal Resources Ltd. to acquire 500,000 common shares of that company for \$250,000. Under the agreement the company has an option to acquire all or any part of a further 1,000,000 common shares of Vantreal Resources Ltd. at a price of \$1 per share exercisable any time prior to January 1, 1979 and all or any part of a further 500,000 common shares at a price of \$2 per share exercisable at any time prior to January 1, 1980. The agreement is conditional upon certain requirements having been met by April 30, 1978.

5. INCOME TAXES

The company has losses available for tax purposes of \$80,000 expiring in 1979 together with timing differences of \$525,000 relating to fixed assets. The total of these amounts can be carried forward and used to reduce future taxable income.

6. STATUTORY INFORMATION

Directors and senior officers, as defined in The Business Corporations Act of Ontario, received direct remuneration in 1977 of \$251,150 (1976 — \$291,041).

AR10



INTERIM REPORT

ROMAN CORPORATION LIMITED

SIX MONTHS ENDED JUNE 30, 1977

ROMAN CORPORATION LIMITED

P.O. Box 40, Royal Bank Plaza
Toronto, Ontario

To Our Shareholders:

During the six months ended June 30, 1977, your Company achieved near record results despite some decrease in the earnings of the Strathcona Paper Division. Growing investment income has, however, more than offset this decline with the result that net earnings for the period were \$3,702,000 or \$1.42 per share, compared with \$3,072,000 or \$1.17 per share in 1976.

Investments

Denison Mines Limited exhibited solid financial growth in the six months ended June 30, 1977. Consolidated net earnings rose 39 per cent to \$13,250,000. This improvement is attributable to increased deliveries of uranium concentrates to Japanese customers, higher net revenue from oil and gas and a currency profit resulting from a higher U.S. dollar value.

Effective September, 1977, Denison will increase its quarterly dividend from 50 cents to 60 cents per share. Predicated on our current holding of Denison shares, dividends from this source will increase from \$2,625,800 to \$3,150,960 annually.

In development projects, Denison continues to make important progress. New gas processing plants are being constructed in western Canada, together with expansion to some existing facilities. The redrilled discovery well, Casablanca No. 1, off-shore Spain, has been tested at over 9,000 barrels per day. In Greece, the Prinos field is ready for development. The last two delineation wells tested at rates of 3,300 barrels per day. In the North Sea, Block 16/13 is currently being drilled under a farmout agreement to "Deminex", a German oil company. Denison's current 15 per cent interest reduces to 10 per cent after one well and to 7½ per cent should a second well be drilled. Quintette and Saxon coal projects are proceeding well. Discussions are currently proceeding with the Japanese to bring Quintette into production and advanced studies on the Saxon property are under way.

In other investments, your Company purchased 65,468 shares of Canray Resources for a total consideration of \$69,000. This was done through the exercise of rights and, in part, through direct subscription of shares in fulfillment of a standby guarantee. Currently, your Company's participation in Canray is 13.3 per cent.

Operations

Strathcona Paper Company operated on a lower level of activity. Sales in the period declined by \$400,000, and generally reflected the poor economic climate. Profit forecasts have been lowered by management to reflect increased costs of labour, raw materials and the unfavourable economic conditions in the packaging industry.

Certain economies have been achieved in the cost of energy as new capital installations became operative. Major additions to plant and equipment in the period were \$358,000.

New Developments

Subsequent to June 30, 1977, your Company arranged to acquire an interest in a series of promising oil and gas concessions and prospects throughout the world. This achievement results from an agreement, which provides for a \$5,000,000 progressive investment over four years to acquire a majority holding in Seagull Petroleum Limited, a Bahama-based holding company. Seagull holds participating interests in concessions in Italy, Sicily, the Cameroons and the United Kingdom, as well as oil and gas leases in Texas, Louisiana and Montana. In addition, applications are pending for concessions in the Central Basins of Iran, off-shore Tunisia and in Angola "Cabinda" on shore.

The quality of the investment arises from Seagull's acknowledged international renown in successfully isolating and evaluating oil and gas prospects in producing sedimentary basins throughout the world. The results of their geological investigations in the world sedimentary basins are recognized by the international oil industry. Their work in this field is compiled and marketed under studies entitled "Petroleum Exploration Guides". Creditability of the investment also arises from Seagull's demonstrated entrepreneurial skill in developing successful consortia — often with the involvement of the major oil companies — to exploit their findings.

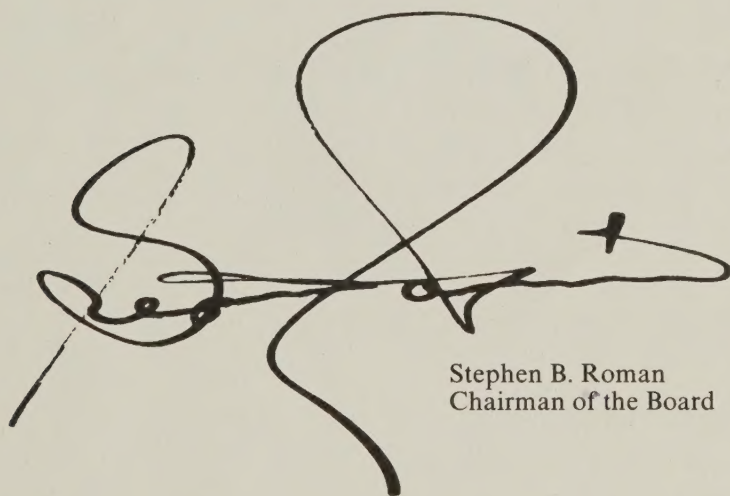
This agreement, which is between Roman International Limited, Bermuda, (a wholly-owned subsidiary), and Seagull, provides for the initial purchase of a \$1,000,000 convertible Seagull debenture. At our option, this may be followed by four similar annual purchases for a total investment of \$5,000,000 to acquire fifty-one per cent ownership. The debentures are convertible into Seagull shares or, as we may decide, into direct interests in Seagull properties. Mr. Stephen B. Roman is Chairman of Seagull and Mr. Joseph Vercellino is President and Chief Executive Officer.

Outlook

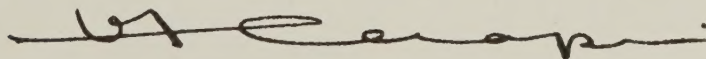
Throughout the balance of the year, management anticipates significant developments in Denison's uranium operations and in their foreign energy resource projects. Most important would be the early signing by Ontario Hydro of a contract with Denison to supply Hydro's long term uranium oxide requirements.

Your management considers the arrangement with Seagull an exciting new departure into the world-wide search for oil and gas. Seismic surveys have been completed on a number of Seagull properties, and some are now in the drilling phase. This new investment brings many and varied prospects to your Company and gives promise of substantial future benefits.

On behalf of the Board of Directors

A large, stylized handwritten signature in black ink, likely belonging to Stephen B. Roman. The signature is fluid and cursive, with a prominent loop at the top.

Stephen B. Roman
Chairman of the Board

A smaller, more horizontal handwritten signature in black ink, likely belonging to Vincent L. Chapin. The signature is cursive and spans the width of the line.

Vincent L. Chapin
President

Toronto, Ontario
August 24, 1977

ROMAN CORPORATION LIMITED

INTERIM REPORT (UNAUDITED)

FOR THE SIX MONTHS ENDED JUNE 30, 1977

SUMMARY OF EARNINGS	1977 \$	1976 \$
Gross Income:		
Sales	6,251,000	6,651,000
Investment and other income	3,559,000	2,560,000
	<u>9,810,000</u>	<u>9,211,000</u>
Earnings before income taxes and extraordinary item	3,702,000	3,072,000
Income taxes	78,000	334,000
Earnings before extraordinary item	<u>3,624,000</u>	<u>2,738,000</u>
Recovery of income taxes resulting from the carry-forward of tax losses from prior years	78,000	334,000
Net earnings for the period	<u>3,702,000</u>	<u>3,072,000</u>
Per Share Information:		
Earnings before extraordinary item	<u>\$1.39</u>	<u>\$1.04</u>
Net earnings for the period	\$1.42	\$1.17

STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of Working Capital

Current Operations		
Net earnings for the period	3,702,000	3,072,000
Items not affecting working capital in the period —		
Depreciation	194,000	158,000
Share of income determined by the equity method, less dividends received	(2,204,000)	(1,175,000)
	<u>1,692,000</u>	<u>2,055,000</u>

Use of Working Capital

Investment in other companies	69,000	3,703,000
Additions to fixed assets	364,000	293,000
Other assets	49,000	49,000
	<u>482,000</u>	<u>4,045,000</u>

INCREASE (DECREASE) IN WORKING CAPITAL	<u>1,210,000</u>	<u>(1,990,000)</u>
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